

corp report

G & B AUTOMATED EQUIPMENT LIMITED

ANNUAL REPORT

1970

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G & B AUTOMATED EQUIPMENT LIMITED

OFFICERS AND DIRECTORS

ROBERT E. BUDAI, *President and Director* Toronto, Ontario
FREDERICK D. O'CONNOR, *Secretary and Director* . . . Toronto, Ontario
PHILIP H. DAVIES, *Director* Montreal, Quebec
THOMAS P. KALMAN, *Director* Toronto, Ontario
DR. FRANCIS E. KRISTOF, *Director* Westmount, P.Q.
ERIC B. RUSSELL, *Director* Toronto, Ontario
PHILIP R. MCDOWELL, *Vice-President, Engineering* . . Toronto, Ontario
RUDOLPH G. KOSTER, *Vice-President, Manufacturing* . Toronto, Ontario
PETER T. CLARK, *Vice-President, Marketing* Nobleton, Ontario
LESLIE O. HIDAS, *Treasurer* Toronto, Ontario




TRANSFER AGENT

THE ROYAL TRUST COMPANY

Royal Trust Tower, Toronto Dominion Centre, Toronto 1, Ontario



HEAD OFFICE 580 Supertest Road, Downsview, Ontario



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G & B AUTOMATED EQUIPMENT LIMITED

REPORT OF THE DIRECTORS

To the Shareholders:

In the last semi-annual report, I predicted a record year for your Company, based on orders on hand and current prospects. Despite the fact that sales rose from \$1,086,000 in 1969 to \$1,224,000 in 1970 (an increase of some 13%) actual sales performance fell short of expectations.

During the last half of 1970, our major traditional market—the United States of America—suffered a recession that particularly affected the capital goods sector in which our product lines fall. Programmed capital expenditures of our major U.S. customers were either cancelled or deferred with a corresponding adverse effect on sales.

Fortunately, the market diversification programme initiated in 1969 began to bear fruit and anticipated sales realized in more buoyant economies of Europe and Japan helped to compensate for the decline in the U.S. market. To illustrate the importance of the market diversification programme the following statistics should be of interest:

GEOGRAPHICAL SALES SUMMARY

MARKET	1970	1970	1969	1969
	\$	%	\$	%
North America.....	427,548	34.9	942,962	86.8
Europe.....	425,510	35.0	67,550	6.3
Japan and Australia.....	371,825	30.1	75,595	6.9
	1,224,883	100.0	1,086,107	100.0

The Company's research and development activities during 1970 were mainly concentrated in the new line of steel conditioning equipment (billet and slab grinders) for use in steel mills. Expenditures during the year totalled \$316,672 of which 50% was financed by the Government of Canada under the PAIT programme.

The development of the billet grinder is now substantially completed and ready for production conditions. This sophisticated machine demonstrates the advanced technology on which the reputation and growth of your Company is based and provides G & B with the opportunity to become a significant factor in the market for steel conditioning systems. This market could be as high as one billion dollars in total over the next decade. The joint marketing arrangements we have recently concluded with the Bay State Abrasive division of AVCO should materially assist our penetration of this vast new market.

Another recent product diversification of promise is our Turn-Key division which offers, in co-operation with Bay State Abrasives (Canada) Limited, complete bonded abrasive factories including equipment, process technology and employee training. Aside from the United States, the major markets for this programme are Eastern Europe and Japan where our Company has submitted proposals totalling \$30,979,500 in value, all of which have resulted from customers' invitations to quote.

I am particularly pleased to report that CN Investments Division (the Managers of the Pension Fund of the Canadian National Railways) decided to invest substantially in your Company. In April 1970, CN Investments purchased 63,000 common shares of the Company at \$9.50 per share and \$300,000 of 5% Serial Convertible Debentures which mature serially in April of 1974, 1977 and 1980. The Fund was also issued share purchase warrants evidencing rights to purchase an aggregate of 36,000 additional shares of your Company at a price of \$12. per share.

The Board of Directors has been strengthened by the addition of Mr. Philip H. Davies, General Manager of CN Investments, whose experience and judgment have been of great assistance in determining corporate policy.

As for the future, the Company considers the introduction of its steel conditioning equipment to the North American steel industry as its top priority goal for 1971. The improving economic climate in the United States should reflect favourably on Company sales of bonded abrasive equipment by the second half of 1971, while Europe and Japan should continue to play an increasingly important role in the Company's growth.

Despite adverse market conditions in 1970, G & B was able to maintain a reasonable profit level. Indications of a strong revival of capital acquisition expenditures in the United States by the second half of the current year together with the prospects of both our market and product diversification programmes, permit me to look to the future with considerable confidence.

On behalf of the Board,

ROBERT E. BUDAI,
President

Toronto, Ontario,
May 25th, 1971

G & B AUTOMATED E

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BALANCE SHEET—

(With comparativ

ASSETS		1970	1969
CURRENT ASSETS			
Cash.....	\$	304,765	\$ 575
Accounts receivable—trade (note 1).....		581,573	395,372
Accounts receivable—government (note 2).....		153,279	176,319
Inventory—raw materials and work in progress.....		341,977	167,105
Accrued interest receivable.....		25,479	—
Prepaid expenses.....		7,377	7,733
		<u>1,414,450</u>	<u>747,104</u>
Long term accounts receivable (note 3).....		<u>113,915</u>	<u>104,900</u>
FIXED ASSETS			
Plant and equipment, leasehold, furnishings and automotive equipment..		150,376	142,085
Less: Accumulated depreciation.....		65,250	47,713
		<u>85,126</u>	<u>94,372</u>
OTHER ASSETS			
Research and development, unamortized (note 4).....		890,321	578,559
Deferred development expenses unamortized (note 5).....		116,339	31,414
Organization and refinancing expenses.....		41,452	20,088
		<u>1,048,112</u>	<u>630,061</u>
		<u>\$2,661,603</u>	<u>\$1,576,437</u>

Approved on behalf of the Board:

ROBERT E. BUDAI, Director

FREDERICK D. O'CONNOR, Director

AUDITORS' REPORT

To the Shareholders of G & B Automated Equipment Limited

We have examined the accompanying balance sheet of G & B Automated Equipment Limited as at December 31, 1970, the statements of retained earnings, income and source and application of funds for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion

- (a) The accompanying balance sheet presents fairly the financial position of the Company as at December 31, 1970.
- (b) The accompanying statements of earnings and retained earnings presents fairly the results of operations of the Company for the year ended December 31, 1970.
- (c) The accompanying statement of source and application of funds presents fairly the source and disposition of funds for the year ended December 31, 1970.

all in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada, February 25, 1971

DRYSDALE, HARRIS AND PLOWMAN,
Chartered Accountants

EQUIPMENT LIMITED

(laws of Ontario)

DECEMBER 31, 1970

(figures for 1969)

LIABILITIES

	1970	1969
CURRENT LIABILITIES		
Bank advances.....	\$ —	\$ 66,649
Accounts payable and accrued charges.....	259,453	309,159
Advances from customers.....	53,120	35,725
Taxes on income.....	8,239	—
	<u>320,812</u>	<u>411,533</u>
LONG TERM LIABILITIES		
5% Serial Convertible Debentures (note 6)	300,000	—
Government of Canada—PAIT assistance program.....	346,550	273,730
	<u>646,550</u>	<u>273,730</u>
DEFERRED TAXES ON INCOME (note 7).....	<u>201,309</u>	<u>122,029</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK		
Authorized:		
1,000,000 common shares of no par value		
Issued:		
563,100 common shares.....	1,114,095	515,595
RETAINED EARNINGS.....	378,837	253,550
	<u>1,492,932</u>	<u>769,145</u>
	<u>\$2,661,603</u>	<u>\$1,576,437</u>

G & B AUTOMATED EQUIPMENT LIMITED

STATEMENT OF RETAINED EARNINGS

For the Year ended December 31, 1970

(with comparative figures for 1969)

	1970	1969
Balance, January 1, 1970.....	\$ 253,550	\$ 130,045
Net Income for year.....	125,287	123,505
Retained earnings, December 31, 1970.....	<u>\$ 378,837</u>	<u>\$ 253,550</u>

STATEMENT OF INCOME

For the Year ended December 31, 1970

(with comparative figures for 1969)

	1970	1969
Sales.....	\$1,224,883	\$1,086,107
Earnings before undernoted items.....	402,329	361,066
Remuneration of officers and directors.....	149,000	132,520
Depreciation expenses.....	17,623	19,997
Research and development amortized.....	5,000	26,669
	<u>171,623</u>	<u>179,186</u>
	230,706	181,880
Taxes on income.....	105,419	58,375
Net income for year.....	<u>125,287</u>	<u>\$ 123,505</u>
Earnings per share (based on 563,100 shares outstanding as at December 31, 1970).....	22c	22c

G & B AUTOMATED EQUIPMENT LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the year ended December 31, 1970

(with comparative figures for 1969)

	1970	1969
SOURCE OF FUNDS		
From company operations		
Net income for year.....	\$ 125,287	\$ 123,505
<i>Add:</i> Depreciation expense.....	17,623	19,997
Research and development amortized.....	5,000	26,669
Development expenses, amortized.....	10,633	—
	<u>33,256</u>	<u>46,666</u>
	158,543	170,171
Consideration from sale of debentures.....	300,000	—
Consideration from sale of common shares.....	598,500	495
Government of Canada—PAIT assistance program.....	72,820	188,230
Deferred income tax.....	79,280	58,375
	<u>1,209,143</u>	<u>417,271</u>
APPLICATION OF FUNDS		
Purchase of fixed assets.....	8,377	87,270
Research and development costs incurred during year.....	316,762	427,117
Deferred development expenses.....	95,558	31,414
Accounts receivable, long term.....	9,015	104,900
Underwriting costs re sale of debentures and common shares.....	21,364	—
	<u>451,076</u>	<u>650,701</u>
Increase in working capital position.....	758,067	(233,430)
Working capital, beginning of year.....	335,571	569,001
Working capital, end of year.....	<u>\$1,093,638</u>	<u>\$ 335,571</u>

G & B AUTOMATED EQUIPMENT LIMITED

Notes to the balance sheet as at December 31, 1970 and to the statements of retained earnings, income and source and application of funds for the year ended on that date.

1. ACCOUNTS RECEIVABLE

Doubtful accounts previously provided for and collected during the year amounted to \$2,232.70 and bad debts in the amount of \$4,296.66 were written off as uncollectable. No further provision was considered necessary.

2. DUE FROM GOVERNMENT OF CANADA

(a) The Company has conservatively estimated their claim for duty drawback from the Government of Canada—Customs and Excise Department at \$15,774.34 for the years ended December 31, 1969 and December 31, 1970.

(b) The Company has filed with the Department of Industry under their PAIT assistance program, claims amounting to \$62,601.60 which amount remained unpaid at December 31, 1970. As this represents an outright taxable grant to the Company the full amount has been included in income.

(c) The Company's claim for a grant under the Department of Industry—IRDIA program with respect to the year ended December 31, 1969 amounting to \$74,902.90 was applied for but not received during the year. The excess of \$14,750.00 over last year's estimates has been included in income for the current year.

3. LONG TERM ACCOUNTS RECEIVABLE

Principal portion only of an interest bearing sales contract payable in semi-annual instalments over ten years.

4. RESEARCH AND DEVELOPMENT, UNAMORTIZED

Research and development costs incurred during the year represent additional costs incurred in developing a billet grinder for the steel industry. This program has been developed in co-operation with the Government of Canada's PAIT assistance program. Research and development costs are being written off as machines are sold.

5. DEFERRED DEVELOPMENT EXPENSES, UNAMORTIZED

Expenses incurred in respect to overseas turnkey projects which are still in the development stage.

6. DEFERRED INCOME TAX

For purposes of statement presentation, income taxes have been calculated on reported earnings of the Company. Under provisions of the Income Tax Act unamortized research and development costs are available to reduce taxable income giving rise to this deferred tax credit.

7. LEASE COMMITMENTS

The Company's rental commitments for the next thirteen years involves the annual rental payment of \$25,700 (excluding tax and like expenses) at 580 Supertest Road, Downsview, Ontario.

8. INCENTIVE STOCK OPTION PLAN

The directors have approved an incentive stock option plan setting aside 25,000 common shares of treasury stock which may be granted at their discretion to any officer, director or employee of the Company at the prevailing market price less a discount of 10 percent, of which 4,100 shares have been granted and 100 shares of which have been exercised.

G & B AUTOMATED EQUIPMENT LIMITED

580 Supertest Road,
Downsview, Ontario

NOTICE OF ANNUAL AND SPECIAL GENERAL MEETING OF SHAREHOLDERS - MAY 15th, 1970

TAKE NOTICE that the Annual and Special General Meeting of Shareholders of the Company will be held on Friday the 15th day of May, 1970 at the hour of 10:00 o'clock in the Forenoon (Toronto time) at the Head Office of the Company, 580 Supertest Road, Downsview, Ontario, for the purpose of:

1. confirming a special resolution passed by the directors of the Company increasing the Board of Directors from 5 to 7 directors of whom 3 shall constitute a quorum at any meeting of the Board of Directors;
2. receiving the report of the directors and officers for the year ended December 31st, 1969;
3. receiving the financial statements of the Company and the auditors' report thereon, for the fiscal year ended December 31st, 1969;
4. electing directors for the ensuing year;
5. appointing auditors and authorizing the directors to fix their remuneration; and
6. transacting such other business as may properly be brought before the meeting and any adjournment or adjournments thereof.

DATED at Toronto, this 4th day of May, 1970.

By Order of the Board,

FREDERICK D. O'CONNOR,
Secretary.

G & B AUTOMATED EQUIPMENT LIMITED

580 Supertest Road,
Downsview, Ontario

INFORMATION CIRCULAR

as at April 30th, 1970

This Information Circular accompanies Notice of the Annual and Special General Meeting of Shareholders of G & B Automated Equipment Limited (the "Company"), called for Friday, the 15th day of May, 1970 and is furnished in connection with a solicitation by the management of the Company of proxies for use at that meeting. The Annual Report of directors for the fiscal year ended December 31st, 1969, including financial statements, is being mailed to shareholders of record concurrently with this circular.

REVOCABILITY OF PROXY

Any shareholder returning the enclosed form of proxy may revoke the same at any time insofar as it has not been exercised. A proxy may be revoked by instrument in writing executed by the shareholder or by his attorney thereof duly authorized, and deposited at the head office of the Company at any time up to and including the last business day preceding the day of the meeting, or any adjournment thereof, and upon such deposit the proxy is revoked.

PERSONS MAKING THE SOLICITATION

The enclosed proxy is being solicited by the management of the Company. Solicitation will be made by mail, supplemented by telephone or other personal contact which may be made without special compensation by regular officers and employees of the Company. The Company may reimburse shareholders' nominees or agents for the cost incurred in obtaining from their principals authorization to execute forms of proxy. No solicitation will be made by specifically engaged employees or soliciting agents. The cost of solicitation will be borne by the Company.

EXERCISE OF DISCRETION BY PROXIES

The persons named in the enclosed form of proxy will vote the shares in respect of which they are appointed in accordance with the direction of the shareholders appointing them. In the absence of such direction, such shares will be voted for the election of directors and the appointment of auditors, each as more particularly set out under the headings "Election of Directors" and "Appointment of Auditors", contained in this circular.

VOTING SHARES

The authorized capital of the Company consists of 1,000,000 common shares without par value. The issued capital of the Company consists of 563,100 common shares. All shares issued by the Company rank equally as to voting power, one vote for each share. At all meetings of shareholders of the Company, two shareholders personally present constitute a quorum. The by-laws of the Company provide that at meetings of shareholders a resolution may be voted upon by a show of hands unless a poll is demanded by a shareholder. On a show of hands, every shareholder present in person shall have one vote. On a poll, every shareholder shall have one vote for each share held by him. In each case, in the event of a tie vote, the Chairman has a second or deciding vote. There are no conversion rights and there are no special liquidation rights, pre-emptive rights or subscription rights respecting shares of the Company.

To the knowledge of the directors and senior officers of the Company the following are the only shareholders holding more than 10% of the issued and outstanding shares of the Company:

<u>NAME</u>	<u>NUMBER OF SHARES</u>	<u>PERCENTAGE OF CLASS</u>
Robert E. Budai	186,802	33.2%
Peter Thomas Clark	64,000	11.4%
Canadian National Railway Company, Trustee for Canadian National Railways	80,900	14.4%
Pension Trust Fund	63,300	11.2%

Shareholders of record on the day of the meeting will be entitled to vote at the meeting. Those shareholders desiring to be presented at the meeting by proxy must deposit their forms of proxy with the Secretary of the Company before the meeting.

ELECTION OF DIRECTORS

The directors of the Company are elected annually and hold office until the next Annual Meeting of Shareholders or until their successors are duly elected. In the absence of instructions to the contrary, the enclosed proxy will be voted for the nominees herein listed, five of whom are presently members of the Board of Directors.

The management does not contemplate that any of the nominees will be unable to serve as a director. In the event that prior to the meeting any vacancies occur in the slate of nominees herein listed, it is intended that discretionary authority shall be exercised by management to vote the proxy for the election of any other person or persons as director.

The nominees for the office of director and pertinent information concerning them, are as follows:

<u>Name, address and present office held with the Company</u>	<u>Principal Occupation or Employment for the past five years</u>	<u>Date first elected a Director</u>	<u>Common Shares Beneficially owned as at April 30, 1970</u>
ROBERT E. BUDAI 82 Crescent Road, Toronto, Ontario. (President and Director)	President of the Company since its incorporation, prior to which he was Staff Engineer and Plant Engineer of Norton Company of Canada Limited.	April 14, 1964	186,802
FREDERICK D. O'CONNOR . . 9 Royal Oak Drive, Don Mills, Ontario. (Secretary and Director)	Partner of legal firm of O'Connor, Gold and Sparks.	March 14, 1968	100
PHILIP H. DAVIES 3940 Cote de Neiges Montreal, Quebec	General Manager of CN Investment Division, formerly, senior assistant treasurer of Canadian National Railway Company.		100
ZIGMUND A. HAHN 50 Prince Arthur Ave., Apt. 1903, Toronto 5, Ontario. (Director)	Chartered Accountant; Executive Vice-President of Pyrominerals Limited 1966 to November, 1968, prior to which he was Senior Vice- President of Clairtone Sound Corporation Limited.	March 14, 1968	14,500
THOMAS P. KALMAN 82 Summerhill Ave., Toronto, Ontario. (Director)	Architect.	March 14, 1968	100
DR. FRANCIS E. KRISTOF . . 28 Edgehill Road, Westmount, P.Q. (Director)	Medical Doctor, Psychiatrist.	March 14, 1968	1,000

There will be one vacancy on the Board of Directors.

REMUNERATION OF MANAGEMENT AND OTHERS AND MANAGEMENT CONTRACT

The aggregate direct remuneration paid during the last financial year by the Company to its senior officers and directors amounted to \$135,440.00.

By agreement dated April 27, 1970 between the company and R. E. Budai, the company retained Mr. Budai as its President for a five year period at a salary of not less than \$45,000 per year, which was Mr. Budai's salary level prior to the agreement.

OPTIONS

By special resolution passed by the Directors on November 8th, 1968, and confirmed in writing by all the shareholders of the Company on the same date, 25,000 unissued shares of the capital stock of the Company were reserved under an Incentive Stock Option Plan for officers, directors, executives and key employees of the Company. The following options have been granted:

<u>Name</u>	<u>Number of Shares</u>	<u>Date of Commencement</u>	<u>Price</u>	<u>Expiry Date</u>
Lloyd Strong	1,000	Jan. 6, 1969	\$4.95	Jan. 5, 1974
Frederick D. O'Connor (Secretary and a Director)	100	Jan. 6, 1969	\$4.95	Jan. 5, 1974
Francis E. Kristof (a Director)	1,000	Feb. 19, 1969	\$7.88	Feb. 18, 1974
William Vekovious	2,000	Feb. 19, 1969	\$7.88	Feb. 18, 1974
	* 6,000	Feb. 19, 1969	\$7.88	Feb. 18, 1974
	* 12,000	Feb. 19, 1969	\$7.88	Feb. 18, 1974

* These options are conditional upon the meeting of specified performance targets.

On March 5th, 1969, Frederick D. O'Connor exercised his said option to purchase 100 shares of the Company.

The shares of the Company do not trade on any Exchange and thus a record of trading prices is not kept. Accordingly, the price range of shares in the 30 day periods preceding the dates of grants of options and the date of exercise of option by Frederick D. O'Connor are not reasonably ascertainable.

INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Pursuant to an agreement dated April 27th, 1970, between the Company and Canadian National Railway Company, Trustee for Canadian National Railways Pension Trust Fund ("CN") which was negotiated for CN by CN Investment Division, CN purchased 63,000 common shares in the capital of the Company together with warrants to purchase an aggregate of an additional 36,000 common shares of the Company. The said purchase was of units consisting of 21 common shares and warrants to purchase 12 common shares per unit at a price of \$199.50 per unit. Pursuant to the said agreement CN also purchased three 5% Serial Convertible Debentures of the Company each in the principal sum of \$100,000 at an aggregate price of \$300,000, such Debentures to mature serially in April in the years 1974, 1977 and 1980. As a condition of the said agreement, certain shareholders of the Company sold CN an aggregate of 17,900 of the outstanding common shares of the Company concurrently with the sale of the said units and Debentures. These outstanding common shares were purchased at a price of \$9.50 per share from the undermentioned shareholders:

<u>NAME</u>	<u>NO. OF SHARES</u>
Robert E. Budai	7,000
Philip Ross McDowell	1,300
Rudolph Gustav Koster	1,300
Peter Thomas Clark	2,500
Leslie O. Hidas	1,300
Zigmund A. Hahn	4,500
	<u>17,900</u>

The foregoing shareholders who constitute the management and control group of the Company have been permitted to sell the foregoing shares by private placement as aforesaid by the release of certain of these shares from escrow by the Ontario Securities Commission.

APPOINTMENT OF AUDITORS

Maurice G. Harris and the successor firm of Drysdale, Harris & Plowman have been the auditors of the Company since August 29th, 1966. Unless otherwise instructed, proxies which are received pursuant to this solicitation will be voted for their re-election as auditors of the Company to hold office until the next Annual Meeting of Shareholders.

OTHER MATTERS TO BE ACTED UPON

The shareholders of the Company will be asked to confirm a special resolution passed by the directors of the Company increasing the Board of Directors from 5 to 7 directors of whom 3 shall constitute a quorum at a meeting of the Board of Directors. This is in order to provide 2 positions on the Board of Directors of the Company to 2 nominees of CN as per agreement between CN and the shareholders of the Company mentioned above under heading "Interests of Management and Others in Material Transactions".

Management knows of no other matters to come before the Meeting of Shareholders other than referred to in the Notice of Meeting. Should any other matters properly come before the meeting, the share represented by the proxy solicited hereby will be voted on such matters in accord with the best judgment of the person voting the proxy.

INTERIM REPORT

For six months ended June 30, 1970

Handwritten signature

G & B AUTOMATED EQUIPMENT
LIMITED



Interim report to the Shareholders:

Operations for the first six months of 1970 resulted in a profit of \$40,573 on sales of \$568,185 compared to a loss of \$20,533 in the first half of 1969 on sales of \$279,794.

While normally, sales in the first half are not an accurate indication of the full year's activities since the bulk of our shipments are concentrated in the second half) it is significant that Japan and West Germany account for the increase in sales in the first six months of this year attesting to the success of our initial penetration of the Western European and Australasian Markets.

The teaming agreement related to Turn-Key Projects entered into between ourselves and Bay State Abrasive Products (Canada) Limited in the latter part of 1969 is already beginning to bear fruit. We have recently signed a contract with the Government of Hungary providing for a \$300,000 "Snagging Wheel Line" for delivery in late 1970 and early 1971 which is a strong indication that we should secure the contract for their proposed new bonded abrasive plant estimated to be in excess of \$10,000,000.

Representatives of Bay State will be accompanying our personnel to Bucharest next month at the invitation of the Rumanian Government to discuss the modernization of their bonded abrasive facilities and proposals now in the hands of the Japanese are of a magnitude which points to the growing importance of "Turn-Key Projects" to G & B's sales programme.

The prototype of our new steel conditioning equipment (slab grinders and billet grinders) has been successfully demonstrated to a number of U.S. steel mills and negotiations are now underway to field test our Slab Grinder in an important speciality steel mill in the United States. The success of this production test is the first step in establishing the Company as a supplier of slab and billet grinders to the speciality steel and carbon steel industry.

Despite a slackening of capital equipment demand from U.S. based abrasive companies in the first half of this year, the tempo on orders flowing in from overseas markets already assures another record year. It is for this reason that I am confident that G & B will show a substantial increase in earnings in 1970.

ROBERT E. BUDAI
President

August, 1970

G & B AUTOMATED EQUIPMENT LIMITED

UNAUDITED INTERIM STATEMENT OF EARNINGS FOR THE SIX MONTHS ENDED JUNE 30th, 1970 (with comparative figures for 1969)

	1970	1969
Sales	\$ 568,185	\$ 279,794
Earnings before undernoted items	144,346	22,512
Remuneration of officers and directors	76,507	48,562
Depreciation expense	8,717	7,802
	85,224	56,364
Taxes on income	59,122	(32,852)
	18,549	(12,319)
Net Income / (Loss) for the period	\$ 40,573	\$ (20,533)

Profit per share (on 563,000 issued shares) 7.2¢ INTERIM UNAUDITED STATEMENT OF SOURCE AND APPLICATION OF FUNDS FOR THE SIX MONTHS ENDED JUNE 30th, 1970 (with comparative figures for 1969)

	1970	1969
SOURCE OF FUNDS:		
Net income for period	\$ 40,573	
Add: Depreciation	8,717	
	49,290	36,601
Government of Canada	72,821	495
Sale of Common Shares, net	577,136	
Sale of Convertible Debentures	300,000	
Deferred income tax	18,549	
	1,017,796	37,096

APPLICATION OF FUNDS:

Loss for period		20,533
Deduct: Depreciation		7,802
		12,731
Increase in plant, equipment and furnishings	7,442	75,930
Deferred income tax adjustment		12,319
Payment of income tax re prior years	17,367	
Research and development costs	157,442	134,060
Turnkey development costs	17,768	
European sales development costs	53,764	
Deferred account receivable increase	10,147	
	263,930	235,040
Increase in working capital position	753,866	(197,944)
Working capital at beginning of period	335,571	569,001
Working capital at end of period	\$ 1,089,437	\$ 371,057